



Healthscope Announces 17% Increase in Net Profit After Tax

Healthscope Limited (“Healthscope” or the “Company”) today announced a net profit after tax before non-recurring items for the year ended 30 June 2010 of \$102.8 million, 16.6% above the previous year.

1 HIGHLIGHTS

1.1 Financials

- Total revenue of \$1,843.5 million, up 11.5%.
- EBITDA of \$263.6 million, up 15.5%.
- Net profit after tax (NPAT) before non-recurring items (NRIs) of \$102.8 million, up 16.6% on last year. NPAT after NRIs was up 37.3% to \$99.3 million.
- Earnings per share (EPS) before NRIs of 34.0 cents, a decrease of 3.4%.
- EPS after NRIs of 32.8 cents, an increase of 13.5%.
- Cashflow from operations of \$159.8 million, with gross operating cash flow equal to 97% of EBITDA after adjusting for the impact of NRIs.
- Declared a fully franked final dividend of 12.0 cents per share, resulting in total dividends for FY 2010 of 23.5 cents, an increase of 9.3% on last year.
- Announced intention to declare a fully franked special dividend of 9.0 cents per share if the proposed scheme of arrangement proceeds.

1.2 Operational

- Healthscope continued to grow strongly and increased market share across all divisions.
- The Hospitals business benefited from continued strong demand for private hospital services, and the completion of a number of expansion projects delivering additional beds and theatres.
- The Australian Pathology business’ strategy of focussing on maintaining affordability through bulk-billing and promoting service quality delivered like-for-like revenue growth of 6.1%, significantly ahead of market growth.
- The International Pathology business delivered strong growth, largely driven by Labtests New Zealand and another solid result from the Singapore operations.

In commenting on the FY 2010 results Mr Bruce Dixon, Chief Executive of Healthscope said:

“Our business is in great shape. The positive momentum evident in the first half continued into the second half of FY 2010, with all of our businesses delivering strong results for the year.

“Our profit performance and continuing strong operating cash flow have enabled us to declare a fully franked final dividend of 12 cents per share for FY 2010.

“Healthscope hospitals are underpinned by robust demand dynamics and we have successfully captured this demand through increasing occupancy and expanding our facilities.

“Our hospital expansion program is on track with brownfield development projects delivering 190 new beds across seven hospitals during the year. In addition to the expansion of existing facilities, the commissioning of the new Norwest Private Hospital delivered 186 new beds.

“The Australian Pathology business recorded a very pleasing result. Against a backdrop of Government funding cuts equivalent to 5% of revenue, this business achieved significant growth in revenue and EBITDA. Our strategy of maintaining affordability through bulk-billing and promoting service quality proved successful.

“The health care reforms proposed by the Federal Government primarily impact the public health care system and will not change the strong industry fundamentals driving demand for private hospital services. Strong demand, together with the ongoing benefits of our hospital expansion program, mean that Healthscope’s hospitals business is well positioned for growth in FY 2011.

“In Australian Pathology, growth in FY 2011 is expected to come from a significant increase in volumes, particularly through new collection centres opened after deregulation on 1 July 2010.”

2 UPDATE ON PROPOSED SCHEME OF ARRANGEMENT

2.1 Scheme Consideration

On 19 July 2010 Healthscope announced a unanimously recommended proposed Scheme of Arrangement (“Scheme”) under which Healthscope shareholders will receive \$6.26 cash per share less any dividends that Healthscope pays to shareholders before the Scheme is implemented.

The Directors of Healthscope have today declared a fully franked final dividend of 12.0 cents per share for FY 2010 which is payable irrespective of whether or not the Scheme proceeds.

The Directors have also determined that they intend to declare a fully franked special dividend of 9.0 cents per share if the Scheme proceeds.

Therefore, if the Scheme proceeds and the special dividend is declared, Healthscope shareholders will receive scheme consideration of \$6.05 cash per share (being \$6.26 cash per share less the final dividend of 12.0 cents per share and less the special dividend of 9.0 cents per share, if declared). If the Scheme proceeds but the special dividend is not declared, Healthscope shareholders will receive scheme consideration of \$6.14 per share.

2.2 Timetable Update

On 3 August 2010, Healthscope lodged its draft Explanatory Booklet for the Scheme with the Australian Securities and Investment Commission (“ASIC”) for its review, in accordance with the Corporations Act 2001.

The First Court Hearing for the Scheme is being held tomorrow, and subject to approval and order of the Supreme Court of Victoria, Healthscope intends to register the Explanatory Booklet with ASIC and file with the ASX on Monday 23 August 2010, with despatch to shareholders shortly thereafter.

Subject to the Court making the requested orders on 20 August 2010, and to ASIC registering the Explanatory Booklet on 23 August 2010, key dates for the Scheme are expected to be as follows:

Event	Date*
Explanatory Booklet released to ASX and despatched to Healthscope shareholders	23 August 2010
Scheme Meeting	22 September 2010
Second Court Hearing to obtain orders approving the Scheme	24 September 2010
Suspension of trading in Healthscope Shares on ASX	27 September 2010
Scheme implementation date	12 October 2010

* These dates and times are indicative only.

3. PERFORMANCE OVERVIEW

3.1 Group Profit and Loss

The table below summarises the group result:

	FY 2010 \$ Millions	FY 2009 \$ Millions	Variance %
Revenue*	1,843.5	1,654.0	11.5
EBITDA	263.6	228.3	15.5
Depreciation & amortisation	(71.7)	(53.3)	34.5
EBIT	191.9	175.0	9.7
Net interest	(53.7)	(54.0)	(0.5)
Net profit before tax	138.2	121.0	14.2
Income tax expense	(35.4)	(32.8)	7.9
Net profit after tax before NRIs	102.8	88.2	16.6
NRIs after tax	(3.5)	(15.9)	NM
Net profit after tax	99.3	72.3	37.3

*Includes Prosthetics revenue of \$197.9 million (FY 2009: \$186.9 million)

3.2 Group Results – Before Non-Recurring Items

Healthscope delivered revenue growth of 11.5% in FY 2010, with both the Hospitals and Pathology businesses achieving solid gains. Revenue growth was driven by both organic growth as well as investment in new businesses, infrastructure and equipment. This included the commissioning of Norwest Private, the completion of a number of hospital expansion projects, the acquisition of ARL Pathology and the commencement of the Labtests NZ contract.

EBITDA increased by 15.5%, driven by the revenue growth referred to above, increased operating efficiencies across the businesses, and an accounting reclassification between EBITDA, depreciation and interest of \$7.0 million relating to reagent rental agreements. Excluding the accounting reclassification, EBITDA was \$256.6 million, an increase of 12.4% over FY 2009. Refer to section 4.3 for further discussion of the accounting reclassification.

Depreciation increased by 34.5%, reflecting the significant investment in infrastructure and equipment over the past 12 months, particularly in relation to the hospital expansion program.

Net interest decreased marginally in FY 2010. Higher average interest rates and debt balances in the second half of the year largely offset the impact on net interest from the share placement and share purchase plan undertaken earlier in the year.

Tax expense increased by 7.9% in FY 2010. The lower effective tax rate is primarily due to the tax benefit of the Government's investment allowance.

NPAT before NRIs increased by 16.6%, driven by stronger operating earnings and a reduction in the effective tax rate, partially offset by an increase in depreciation.

The table below provides an analysis of the growth in EBITDA achieved in FY 2010 compared with the previous year. A more detailed analysis is contained in the Review of Operations.

EBITDA	FY 2010 \$ Millions	FY 2009 \$ Millions	Variation %
Hospitals	202.1	178.7	13.1
Pathology Australia	47.4	42.4	11.8
Pathology International	28.9	19.4	49.0
Corporate	(14.8)	(12.2)	21.3
Total-before NRIs	263.6	228.3	15.5

Higher EBITDA contributions from both the Hospitals and Pathology divisions were partially offset by higher corporate costs. Corporate costs increased in line with the increase in performance based executive remuneration, following achievement of 'stretch' targets for 2009.

3.3 *Non-Recurring Items*

NRIs (after tax) reduced the Group FY 2010 NPAT by \$3.5 million, which is significantly less than NRIs (after tax) in FY 2009 of \$15.9 million. NRIs (after tax) included in the NPAT after NRIs are outlined in the table below:

NRIs after tax	FY 2010 \$ Millions	FY 2009 \$ Millions
Restructure and transition costs	(3.0)	(2.6)
Acquisition costs	(3.5)	(1.3)
Legal costs (major disputes)	(0.8)	
Costs relating to proposed Scheme	(1.7)	
Tax adjustment (consolidations)	4.1	
Profit on revaluation of e-clinic	1.4	
Write-off of Symbion break fee		(12.0)
Total NRIs after tax	(3.5)	(15.9)

3.4 *Earnings per Share*

EPS before NRIs was 34.0 cents in FY 2010 (35.2 cents FY 2009), a 3.4% decrease over the previous year. EPS after NRIs was 32.8 cents (28.9 cents FY 2009), an increase of 13.5%.

Growth in NPAT did not directly translate into growth in EPS due to the increase in the weighted average number of shares in FY 2010 following the capital raisings conducted in September 2009 and October 2009.

3.5 Dividends

Healthscope today declared a fully franked final dividend of 12.0 cents per share expected to be paid on 4 October 2010 to registered shareholders at 1 October 2010.

Healthscope Directors have also determined that they intend to declare a fully franked special dividend of 9.0 cents per share if the Scheme proceeds. This special dividend (if declared) is also expected to be paid on 4 October 2010 to registered holders at 1 October 2010.

Consistent with its obligations under the Scheme Implementation Agreement, the Board has determined that the dividend re-investment plan will be suspended for this dividend and if a proposed special dividend is declared.

3.6 Cash Flow

Cash flow from operating activities was \$159.8 million (FY 2009: \$150.5 million). The increase in cash from operations was driven by the increase in operating earnings, partially offset by higher interest and tax payments, and higher non-recurring cash items in FY 2010.

After adjusting for the cash impact of the NRIs, cash conversion for FY 2010 was 97%.

Gross Operating Cash to EBITDA	FY 2010 \$ Millions	FY 2009 \$ Millions	Variance
Cashflow from Operating Activities	159.8	150.5	6.2%
Add back			
- Net Interest paid	54.6	48.5	12.6%
- Income Tax paid	29.5	27.8	6.1%
- NRI Cash Items	10.4	5.6	85.7%
Total – Gross Operating Cash	254.3	232.4	9.5%
EBITDA before NRIs	263.6	228.3	15.5%
Ratio of Gross Operating Cash to EBITDA before NRIs	97%	102%	

3.7 Capital Expenditure FY 2010

The table below summarises group Capital Expenditure for the year:

	FY 2010 \$ Millions	FY 2009 \$ Millions
“Stay in business PP&E”	86.3	82.2
Technology	19.6	11.1
New equipment	41.0	8.9
Brownfields	79.9	45.3
Greenfields	89.8	17.4
Total cashflow CAPEX	316.6	164.9

2.7.1 Property, Plant & Equipment

“Stay in business PP&E”, or capital expenditure required to keep all facilities at the required standard, was largely in line with prior year levels.

2.7.2 Technology

The IT investment was focused on providing enhanced infrastructure and systems to improve efficiency and support the expanding network of hospitals, pathology and medical centres.

The hospital division has continued to deploy the upgraded web-based Patient Administration System. In total, 28 hospitals have now been upgraded, with the system expected to be rolled out to the majority of hospitals by December 2010.

2.7.3 New Equipment

The investment in new equipment was spent on establishing new laboratories, expanding existing laboratories, expanding the collection centre footprint in preparation for deregulation, and fitting out new medical centres.

The investment also included the expansion of diagnostic imaging services to a further 3 hospitals.

2.7.4 Brownfields

Healthscope’s investment in hospital capacity delivered an additional 190 beds during FY 2010. Healthscope invested \$79.9 million into the expansion of hospital capacity, which included completed projects at the Melbourne Clinic, the Victorian Rehabilitation Centre, Brisbane Private, The Hills Private, Allamanda Private, Cotham Private and Geelong Private, and projects currently under construction at Nepean Private, Prince of Wales Private, Knox Private and Northpark Private.

2.7.5 Greenfields

The Norwest Private Hospital was commissioned in September 2009 for a total investment of \$75.5 million. This investment provides a state of the art facility with 186 beds, 10 operating theatres, a pathology laboratory and imaging practice.

A further \$14.2 million was invested in FY 2010 to finalise the development of the new laboratory required for the Labtests operation.

The majority of Greenfield capital expenditure was incurred in the first half of FY 2010, with only \$0.5 million incurred in the second half.

3.8 Balance Sheet, Equity and Debt

Key balance sheet metrics are set out below:

- Net Assets at 30 June 2010 of \$1,199.3 million represents a 32.5% increase over the 30 June 2009 level of \$905.3 million.
- The Company's asset backing per share has increased to \$3.78 per share, up from \$3.52 per share at 30 June 2009.
- Weighted average number of shares outstanding during FY 2010 increased to 302.4 million (FY 2009: 250.3 million) following the equity raisings conducted during the year and issuance of shares under the DRP.
- Interest bearing liabilities net of cash (net debt) of \$719.8 million represented an increase of 9.6% over net debt as at 30 June 2009 of \$656.7 million.
- The ratio of net debt to net debt plus equity stands at 37.5% (42.0% at 30 June 2009).
- The interest cover ratio (EBITDA/interest expense) for FY 2010 stands at 4.9 times and 4.7 times based on EBITDA before and after NRIs respectively.
- The cost of funding under the receivables securitisation facility is included in interest expense. The outstanding drawings of the securitisation facility was \$99.4 million at 30 June 2010.

The Company completed a Share Placement for \$140 million on 2 September 2009 and a Share Purchase Plan on 9 October 2009 for \$90 million to provide funding for the hospitals expansion program, the ARL Pathology and medical centres acquisitions, and to provide flexibility to pursue future acquisition opportunities.

The Company has an \$850 million, 3 year revolving debt facility with a syndicate of 8 banks. The facility will mature in July 2011. Fixed interest rate swaps of \$395 million were in place at 30 June 2010 to significantly hedge the Company's interest rate exposures. These hedges also mature in July 2011

The Company had \$180 million available in undrawn committed debt facilities as at 30 June 2010.

4. REVIEW OF OPERATIONS

The Company has achieved significant revenue and earnings growth across both its Hospitals and Pathology businesses.

4.1 Hospitals

	FY 2010 \$ Millions	FY 2009 \$ Millions	Variation %
Revenue*	1,185.9	1,090.0	8.8
EBITDA	202.1	178.7	13.1
EBITDA Margin	17.0%	16.4%	60 bps
EBITDA Margin (excluding ACHA ¹ mgt fee)	16.2%	15.5%	70 bps

*Excludes prosthetics revenue of \$197.9 million (FY 2009: \$186.9 million)

The Hospitals business achieved revenue growth of 8.8% to \$1,185.9 million in FY 2010. The solid growth in revenue was driven by continued strong demand for private hospital services leading to increased occupancy at a number of hospitals, and the completion of a number of expansion projects delivering additional beds and theatres.

The following recently completed brownfield projects contributed to revenue in FY 2010:

- The Melbourne Clinic (November 2009) – 48 beds
- The Victoria Rehabilitation Centre (November 2009) – 30 beds
- The Hills Private (November 2009) – 92 beds
- Brisbane Private (January 2010) – 20 beds and 3 theatres
- Allamanda Private (February 2010) – refurbishment
- Geelong Private (February 2010) – 1 theatre
- Cotham Private (May 2010) – 1 theatre

In addition, the new Norwest Private Hospital was commissioned in September 2009 (186 beds). Demand at Norwest has been so strong that Healthscope is planning to undertake an expansion of this facility.

EBITDA margins excluding the ACHA Management Fee increased by 70 basis points on last year as a result of operating efficiencies from increased volumes and occupancy, and the higher incremental margin from brownfield projects beginning to flow through.

The management contract with ACHA delivered a management fee of \$11.1 million in FY 2010 which was largely consistent with the FY 2009 fee of \$11.9 million.

¹ Adelaide Community Healthcare Alliance (ACHA).

4.2 Pathology Australia

	FY 2010 \$ Millions	FY 2009 \$ Millions	Variation %
Revenue	317.0	272.6	16.3
EBITDA	47.4	42.4	11.8
EBITDA Margin	15.0%	15.6%	-60bp

The Australian Pathology business recorded revenue of \$317.0 million in FY2010, an increase of 16.3%. Like-for-like revenue growth was 6.1% in FY 2010 (4.8% in 2H 2010), which was significantly higher than market growth. Organic revenue growth decreased on the first half of FY 2010 due to market growth well below that previously seen in the Australian pathology industry and the full impact of the November 2009 fee cut.

Healthscope continued to gain market share across the year through its strategy of maintaining bulk billing levels and enhancing service delivery. All states recorded robust volume growth, with Victoria, New South Wales, Queensland and Western Australia achieving double digit volume growth.

Australian Pathology EBITDA increased 11.8% to \$47.4 million in FY 2010, driven by strong growth in volume and operating efficiencies.

The decline in EBITDA margin of 60bp is a pleasing result in light of the Government fee cuts. The benefits to margin from increased volumes and improved operating efficiencies were offset by the direct impact of the Government fee changes on margin.

The medical centres business also achieved solid revenue and earnings growth driven by growth in consultations and operating efficiencies. Whilst Healthscope acquired / developed 11 new centres in FY 2010, these did not have a significant impact in FY 2010 given most were acquired in the later part of the year.

4.3 Pathology International

	FY 2010 \$ Millions	FY 2009 \$ Millions	Variation %
Revenue	142.7	104.5	36.5
EBITDA	28.9	19.4	49.0
EBITDA Margin	20.3%	18.6%	+170bp
<u>Excluding re-agent reclassification: see note 1</u>			
EBITDA	21.9	19.4	12.9
EBITDA margin	15.3%	18.6%	-330bp

Note 1: Reclassification in relation to reagent rental agreements

During FY 2010, the treatment of reagent rental agreements for Pathology International was aligned with the Australian business, whereby reagent rentals of diagnostic equipment are accounted for as finance leases. This resulted in a reclassification between EBITDA, depreciation and interest, resulting in an increase in reported EBITDA of \$7.0 million for International Pathology. This reclassification had no impact on profitability at the NPAT line.

The composition of the revenue for Pathology International is detailed in the table below:

Revenue	FY 2010 \$ Millions	FY 2009 \$ Millions	Variation %
New Zealand	100.2	58.6	71.0
Malaysia & Singapore	42.5	46.0	(7.6)
Total	142.7	104.6	36.4

The significant increase in revenue in New Zealand during FY 2010 was due to the NZ Labtests contract which commenced full pathology services on 7 September 2009. These operations have received full accreditation and are exceeding the requirements set by the District Health Boards. The margins recorded by these operations in FY 2010 reflect the start-up nature of this business, and were the key driver of the decrease in margin in the International business recorded in FY 2010. Margins for the Labtests contract are expected to improve over time as operational efficiencies are realised.

The pathology operations in Malaysia have experienced softer volumes in FY 2010 due to the impacts of the Global Financial Crisis on foreign worker screening, and the loss of hospital work where hospitals have established in-house laboratories. The Singapore pathology business continued to perform well in FY 2010. Results for both Malaysia and Singapore were negatively impacted by the stronger A\$ in FY 2010.

5. OUTLOOK

The health care reforms proposed by the Federal government primarily impact the public health system and are not expected to change the strong industry fundamentals driving the demand for private hospital services.

- Growth in the Hospitals division in FY 2011 is expected to be underpinned by continued strong underlying demand and the benefits of the hospital expansion program.
- In Australian Pathology, growth in FY 2011 is expected to come from a significant increase in volumes, particularly through new collection centres opened following the deregulation on 1 July 2010. Furthermore, on 1 July 2010 Healthscope moved to national branding for its Australian Pathology business, Healthscope Pathology, which is also expected to enhance Healthscope's positioning in the Australian market.
- Further incremental growth is expected in International Pathology in FY 2011.

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